

**REPORT OF THE AUDIT OF THE
FORMER MERCER COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER MERCER COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the former Mercer County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$6,882 from the prior year, resulting in excess fees of \$73 as of December 31, 2006. Revenues increased by \$41,530 from the prior year and expenditures increased by \$48,412.

Report Comments:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John D. Trisler, Mercer County Judge/Executive
The Honorable Ralph Anderson, Former Mercer County Sheriff
The Honorable Chris Kehrt, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Mercer County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 3, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable John D. Trisler, Mercer County Judge/Executive
The Honorable Ralph Anderson, Former Mercer County Sheriff
The Honorable Chris Kehrt, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Mercer County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

July 3, 2007

MERCER COUNTY
RALPH ANDERSON, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		\$	27,751
State Fees For Services:			
Finance and Administration Cabinet	\$	31,967	
Sheriff Security Service		<u>22,156</u>	54,123
Circuit Court Clerk:			
Fines and Fees Collected		4,729	
Court Ordered Payments		<u>7,350</u>	12,079
Fiscal Court			73,829
County Clerk - Delinquent Taxes			3,326
Commission On Taxes Collected			297,960
Fees Collected For Services:			
Auto Inspections		5,937	
Accident and Police Reports		625	
Add-On Fees		37,631	
Serving Papers		22,715	
Carrying Concealed Deadly Weapon Permits		6,730	
Transport Prisoners		<u>10,909</u>	84,547
Other:			
In-Lieu Of Taxes		9,896	
Miscellaneous		<u>10,710</u>	20,606
Interest Earned			3,373
Borrowed Money:			
State Advancement		200,000	
Bank Note		<u>20,000</u>	<u>220,000</u>
Total Revenues			<u>797,594</u>

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
 RALPH ANDERSON, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	339,436
Other Salaries		1,680
KLEFPF		27,569

Contracted Services-

Advertising		534
Tax Bill Preparation		5,147

Materials and Supplies-

Office Materials and Supplies		11,610
Uniforms		1,997

Auto Expense-

Gasoline		33,254
Maintenance and Repairs		20,521

Other Charges-

Conventions and Travel		1,538
Dues		652
Postage		5,200
Insurance		7,892
Bond		10,652
Carrying Concealed Deadly Weapon Permits		3,830
Executions		6,995
Miscellaneous		10,072

Capital Outlay-

Office Equipment	7,840	\$	496,419
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Debt Service:

State Advancement	200,000	
Bank Notes	20,000	
Interest	312	220,312

Total Expenditures

716,731

Net Revenues

80,863

Less: Statutory Maximum

74,294

Training Incentive Benefit

6,496

80,790

Excess Fees Due Fiscal Court at Completion of Audit

\$ 73

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. Leases

- A. The Sheriff's office is committed to a lease agreement with Pitney Bowes for a postage meter. The agreement requires a quarterly payment of \$134 for 18 quarters to be completed on April 20, 2011. The total remaining balance of the agreement was \$2,278 as of December 31, 2006.
- B. The Sheriff's office is also committed to a lease agreement with Imagistics for a copier. The agreement requires monthly payments of \$171 for 60 months to be completed on June 14, 2011. The total remaining balance of the agreement was \$9,234 as of December 31, 2006.

Note 5. Drug Forfeiture Account

The Sheriff's office maintains a Drug Forfeiture Account with State Bank & Trust Company. The account holds funds confiscated during drug arrests and does not have to be included in the former Sheriff's excess fee calculation. The Drug Forfeiture Account funds may be used for drug-related law enforcement. The balance in the fund at the beginning of the year was \$879. Receipts for 2006 totaled \$1 and expenditures totaled \$800. The balance as of December 31, 2006 was \$80.

Note 6. Grant Account

The Sheriff's office received a \$5,000 grant during the year ended December 31, 2004 from Purdue Pharma Technologies. Grant proceeds are to be used for conducting prescription drug investigations with the primary focus on the abuse and diversion of OxyContin® and does not have to be included in the former Sheriff's excess fee calculation. There were no receipts or expenditures during 2006. The unexpended grant balance was \$75 as of December 31, 2006.

Note 7. Drug Abuse Resistance Education Account (DARE)

The Sheriff's office maintains a Drug Abuse Resistance Education Account (DARE). The funds are to be used for drug education. The balance in the account as of January 1, 2006 was \$118. There were no receipts or expenditures during the year. The balance as of December 31, 2006 was \$118.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John D. Trisler, Mercer County Judge/Executive
The Honorable Ralph Anderson, Former Mercer County Sheriff
The Honorable Chris Kehrt, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Mercer County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated July 3, 2007. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Mercer County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Mercer County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Mercer County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Adequate Segregation



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Mercer County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The former Mercer County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the former Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mercer County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 3, 2007

COMMENT AND RECOMMENDATION

MERCER COUNTY
RALPH ANDERSON, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

During our review of internal control, we found that the former Sheriff's office has a lack of adequate segregation of duties. The bookkeeper prepared the daily checkout sheet, posted collection totals to the receipts ledger, made deposits, and reconciled the bank account. The bookkeeper was also responsible for preparing payroll checks and checks for operating expenditures. The following compensating controls could have been implemented to offset this internal control weakness:

The former Sheriff should have periodically compared the daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. The former Sheriff could have documented this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.

The former Sheriff should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The former Sheriff could have documented this review by initialing and dating the bank reconciliation and the balance in the checkbook.

The former Sheriff should have compared the quarterly financial report to the receipts and disbursements ledgers for accuracy. The former Sheriff should also have compared the salaries listed on the quarterly report to the individual earnings records. Any differences should have been reconciled. The former Sheriff could have documented this review by initialing and dating the quarterly report.

The former Sheriff should have periodically compared invoices to payments. The former Sheriff could have documented this review by initialing and dating the invoices.

Sheriff's Response: I understand the segregation of duties as explained to me.

